Tax lessons

General Features



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Bill Dodwell considers the benefits of increasing public understanding of tax and compliance, and how to go about it

ducation about tax comes in multiple forms – perhaps at three levels. There is awareness of how a tax system is designed to raise money to support public services, influence behaviours and redistribute money to those in need. Often what is meant by tax education is closer to home: helping people to understand the choices open to them as different types of income and activities are taxed in different ways – and related compliance obligations. The most basic form of education must be around tax compliance: exactly what do we need to do to manage our basic tax reporting – whether as an employee or the additional

complexities of managing a self-employed business.

There is widespread agreement that too few people understand any of these three types of tax information. A survey by Deloitte in 2019 highlighted the tax education gap (see bit.ly/2TsZkZT).

The Taxation and Life Events report by the Office of Tax Simplification also included a chapter on education (see bit.ly/ 3rvWAaz). The OTS noted that we are all expected to comply with the law in relation to taxation but that many people do not know or understand their obligations.

HMRC has some excellent materials to help schools, under the Tax Facts banner (see bit.ly/3znKxih). The challenge for schools is both finding time in the curriculum and also finding qualified people to teach the topic. There is some evidence that many teachers feel uncertain about teaching this topic. If we assume that despite the best efforts of many, tax is unlikely to be taught in many more schools, we should ask how else could we help people learn about the tax issues relevant to them?

Further Education colleges and universities

The OTS team found good examples of colleges adding in a tax module to courses where many participants could find work as self-employed individuals. The great thing about offering training at this time is that it is likely to be immediately relevant to the students. Only a few months later, they could find themselves putting all their new-found knowledge into practice.

Arguably, this is a much better time to teach tax, due to the immediacy of application. Any form of training will require funding, as well as those able to teach the topic. However, the return to the Exchequer of funding training is likely to significantly exceed its cost.

A large component of the Tax Gap measured annually by HMRC covers the self-employed, where the methodology indicates that there is a high error rate. Managing this through compliance activities is expensive: the amounts in relation to an individual taxpayer are modest, but they add up, given there are 4 million self-employed individuals. Helping people to understand how they can manage their business better – and meet their tax obligations – is a worthwhile investment.

Finding the right time

As those who work in training will know well, so-called ‘awareness’ training is often not effective. We know, for example, that corporate tax specialists would offer a much better service to their clients if they had some VAT and land transaction tax knowledge. However, as those corporate specialists do not take responsibility for giving advice outside their key technical area, training needs to help them understand the triggers for bringing in a colleague with different specialist skills.

One idea put forward in a number of OTS reports is that in some situations businesses should be required to pass tax information from HMRC to their customers. For example, in the recent second report on capital gains tax (see bit.ly/3eLQwFN), the OTS recommended that the government should consider requiring that conveyancers or estate agents should pass on to their customers the electronic equivalent of an HMRC leaflet.

The conveyancers would not be asked to give anyone tax advice: that could be outside their scope of practice, or not covered by their fees. Instead, they would pass on HMRC guidance. In the property area, this would cover when the sale of a residence could be taxable and when the sale would need to be reported – the 30-day return.

A similar approach could apply to businesses which engage self-employed people. In a small number of areas, obtaining a licence requires that the licensing authority check that the individual is registered for tax with HMRC. However, many more engagers do not need to make this check – but they could help by passing on information to those providing services. Again, it must be HMRC information: there is no reason why a business should get involved in giving tax advice.

A forthcoming area could be Making Tax Digital for income tax. It is easy to see that those who already have a tax agent or who use accounting software will have ready sources of information and prompts to join the new service. However, it is thought that up to 30% of self-employed people do not have a tax agent. Finding an engager route to pass on information could help hard-to-reach people with this significant transformation in how they keep records and file information with HMRC.